BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

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EXHIBIT NO. ____ (JEE-4)

WITNESS: JON E. ELIASSEN, AVISTA CORP.

05:28pm EST 2-Nov-01 A.G. Edwards (Fischer, Doug 314-955-3501) AVA
AVISTA TAKES 3Q CHARGE; '01 EPS ESTIMATE RAISED AND '02 EPS ESTIMATE LOWERED

A.G. Edwards & Sons, Inc.
Equity Research - ELECTRIC UTILITIES
October 31, 2001

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AVISTA TAKES 3Q CHARGE; '01 EPS ESTIMATE RAISED AND '02 EPS ESTIMATE LOWERED

AVISTA CORPORATION (AVA 10.72 - NYSE)
HOLD/AGGRESSIVE

Market Cap ($mil.): $515 Est. Long-Term EPS CAGR: 4%
Dividend: $0.48 Book Value/Share: $15.46
Yield: 4.5%

Fiscal Year Ends Dec

EPS	2000A	2001E	Prior	2002E	Prior	2003E	Prior
Qtr1	$0.20	$0.61					
Qtr2	-$0.47	$0.47					
Qtr3	$0.72	$0.12					
Qtr4	$1.42	$0.11					
Year	$1.87	$1.31	$1.15	$0.50	$1.20		

Highlights:
* On October 31, Avista Corporation reported ongoing 2001 third quarter EPS of $0.12 compared to $0.72 for the same period last year. Ongoing earnings excludes a $35.1 million after-tax impairment charge and $3.3 million in operating losses for the third quarter related to Avista Communications, a business unit that is being divested.
* In its earnings release, the company provided 2001 EPS guidance of $0.45 to $0.55 per diluted share, including Avista Communications financial results. We have raised our 2001 EPS estimate to $1.31 from $1.15 to reflect the mid-point of the company's guidance and we add back $0.81 per share to account for the impairment charge and operating losses related to Avista Communications.
* Management expects 2002 EPS to fall within the range of $0.45 to $0.55. Consequently, we have lowered our 2002 EPS estimate to $0.50 from $1.20. The lowered 2002 earnings guidance is due in part to the expected impact of a recent regulatory order issued by the Washington Utilities and Transportation Commission (WUTC).
* We continue to rate the shares of AVA "HOLD" for aggressive investors. We remain concerned about the company's increased debt level and the uncertainty of deferred power cost recovery in Washington inherent in the WUTC's September order.
* While Avista management expects the company's liquidity and debt position to improve over the next two years due to increased cash flow from current rate increases, a reduction in debt from the sale of assets and recovery of deferred power costs pending completion of a general rate case in Washington, a further deterioration in earnings and/or a material disallowance of deferred power costs by the WUTC could put the dividend at risk.
* We have also lowered our dividend rating to "3-dividend appears secure over intermediate term, but may not be secure over the long-term" from "2-dividend secure with little/no growth."

Avista Takes 3Q Charge: '01 EPS Estimate Raised and '02 EPS Estimate Lowered. On October 31, Avista Corporation reported ongoing 2001 third quarter EPS of $0.12 compared to $0.72 for the same period last year. Ongoing earnings excludes a $35.1 million after-tax impairment charge and $3.3 million in operating losses for the third quarter related to Avista Communications, a business unit that is being divested. In its earnings release, the company provided 2001 EPS guidance of $0.45 to $0.55 per diluted share, including Avista Communications financial results. We have raised our 2001 EPS estimate to $1.31 from $1.15 to reflect the mid-point of the company's guidance and we add back $0.81 per share to account for the impairment charge and operating losses related to Avista Communications. Management expects 2002 EPS to fall within the range of $0.45 to $0.55. Consequently, we have lowered our 2002 EPS estimate to $0.50 from $1.20. A regulatory order issued by the Washington Utilities and Transportation Commission (WUTC) in September ends deferred accounting treatment of power costs as of December 31, 2001. Therefore, to the extent that purchased power costs exceed amounts collected in rates, the expense differential will be recognized on the income statement rather than deferred and treated as a regulatory asset subject to future collection. Management expects 2002 utility purchased power cost under recoveries to fall within a range of $20 million to $30 million. We have also lowered our dividend rating to "3-dividend appears secure over intermediate term, but may not be secure over the long-term" from "2-dividend secure with little/no growth."

Summary of Business Operations
The company's business segments reported the following third-quarter diluted earnings per share:

	Quarter Ended Sept. 30,	
Business Segment	2000	2001
Avista Utilities	$0.06	($0.02)
Energy Trading & Marketing	$0.23	$0.89
Information & Technology	($0.10)	($0.10)
Other	($0.07)	($0.01)
Ongoing Earnings	$0.12	$0.76
Non-Recurring Charge	($0.81)	($0.04)
Reported Earnings	($0.69)	$0.72

Avista Utilities' electric revenue declined to $168.4 million from $374.5 million during the same period last year primarily due to decreased wholesale sales. While retail electric sales declined 5.6% to 1,870 Gigawatt hours (GWh), wholesale volume declined 59.2% to 1,492 GWh. In addition, the average wholesale price declined approximately 39% to $0.044/kilowatt hour (kwh) from $0.072/kwh, from the year ago period.

Compared to the 2000 third quarter, the net loss posted by the Information and Technology segment increased 0.4% to $4.9 million, even though revenue increased 182.2% to $3.99 million. While losses narrowed at the company's internet-based billing unit, Avista Advantage, losses at Avista Labs, a developer of distributed generation products and components, increased compared to the same period last year. Management has indicated that it will consider various options regarding Avista Advantage if the unit does not post at least break-even results by the end of the first quarter 2002. Other continuing operations posted a loss of $3.1 million during the third quarter 2001 compared to a loss of $381 thousand during the same period last year due primarily to an increase in interest expense on inter company borrowings.

Energy Trading and Marketing revenue declined 50.5% to $1.23 billion, compared with $2.48 billion during the third quarter 2000. Net income declined 74.5%, to $10.7 million. Power sales volume declined 59.6% to 14,640 GWh from 36,216 GWh and sales of gas declined 20.2% to 55,507 dekatherms (dkth) from 69,606 dkth.

Consolidated operating expenses declined to $1.37 billion from $2.37 billion primarily due to a 52% decrease in fuel and purchased power costs to $1.29 billion from $2.70 billion. However, interest expense increased 39.5% to $27.6 million compared to the year ago period.

In its third quarter earnings release, AVA announced that it had signed a letter of intent with Mirant to sell half of the Coyote Springs 2 natural gas generation project in which both companies will share the costs equally. Avista has approximately $135 million invested in the 280-megawatt facility that is currently under construction and expected to begin operation in mid-2002. The total cost of the plant is anticipated to be approximately $190 million. Management expects to compete the sale by the end of 2001.

Regulatory Update
On September 24, the Washington Utilities and Transportation Commission (WUTC) approved a 25% temporary electric surcharge, which will be in effect from October 1, 2001 through December 31, 2002. The surcharge is subject to refund pending the outcome of a general rate case that AVA is required to file by December 1, 2001. The Commission's order allows Avista Utilities to begin recovering purchased power costs that have been deferred. However, the deferred accounting mechanism expires at the end of 2001.

As of September 30, 2001, deferred power cost balances in Washington and Idaho totaled approximately $270 million. Almost $200 million of the deferral balance was incurred on behalf of Washington customers. The WUTC order allows Avista to recover approximately $125 million, including $71 million in cash by the end of 2002, on a subject to refund basis. The remaining $54 million of "recovery" is via the use of a non-cash credit on the balance sheet. The company's general rate case in Washington will address the prudence of deferred power costs and recovery of remaining deferred balances.

The deferred power cost balance in Idaho at the end of the third quarter was approximately $71.5 million. On October 15, 2001, the Idaho Public Utilities Commission issued an order that allows Avista to reduce the deferred power cost balance in Idaho by approximately $23.6 million annually in cash and the use of a non-cash credit to reduce the deferral balance by an additional $34.6 million. The Order instituted a $17.9 million continuation of an existing $5.7 million surcharge. While both surcharges expire on October 11, 2002, Avista is allowed to request an extension of the surcharge to recover any uncollected deferred power costs.

Investment Appraisal
We continue to rate the shares of AVA "HOLD" for aggressive investors. We remain concerned about the company's increased debt level and the uncertainty of deferred power cost recovery in Washington inherent in the WUTC's September order. As of September 30, Avista's equity ratio was approximately 34.4% compared to 39.5% at the end of the second quarter. While Avista management expects the company's liquidity and debt position to improve over the next two years due to increased cash flow from current rate increases, a reduction in debt from the sale of assets and recovery of deferred power costs pending completion of a general rate case in Washington, a further deterioration in earnings and/or a material disallowance of deferred power costs by the WUTC could put the dividend at risk.

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EON

Merrill Lynch *Comment* **United States Electric Utilities**

2 November 2001

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Avista Corp.

Long Hard Ride **NEUTRAL**

Reason for Report: Q3 Results; Lowering Income Rating to 8

Long Term ACCUMULATE

Price: **$11.99**

Estimates (Dec)	2000A	2001E	2002E
EPS:	$1.42	$0.50	$0.50
P/E:	8.4x	24.0x	24.0x
EPS Change (YoY):		-64.8%	0.0%
Consensus EPS: (First Call: 23-Aug-2001)		$1.11	$1.08
Cash Flow/Share:	$1.64	$0.55	$0.70
Price/Cash Flow:	7.3x	21.8x	17.1x
Dividend Rate:	$1.05	$0.48	$0.48
Dividend Yield:	8.8%	4.0%	4.0%

Opinion & Financial Data

Investment Opinion:	D-3-1-7 to D-3-1-8
Mkt. Value / Shares Outstanding (mn):	$563.5 / 47
Book Value/Share (Jun-2000):	$13.98
Price/Book Ratio:	0.9x
ROE 2001E Average:	NA
LT Liability % of Capital:	45.4%
Est. 5 Year EPS Growth:	4.0%
Next 5 Year Dividend Growth:	0.0%

Stock Data

52-Week Range:	$23.97-$11.80
Symbol / Exchange:	AVA / NYSE
Options:	Chicago
Institutional Ownership-Vickers:	47.5%
Brokers Covering (First Call):	5

ML Industry Weightings & Ratings**

Strategy; Weighting Rel. to Mkt.:		
Income:	Overweight	(25-Oct-2000)
Growth:	In Line	(25-Oct-2000)
Income & Growth:	Overweight	(25-Oct-2000)
Market Analysis; Technical Rating:	Average	(09-Aug-2001)

**The views expressed are those of the macro department and do not necessarily coincide with those of the Fundamental analyst.
For full investment opinion definitions, see footnotes.

Highlights:

- **Yesterday, Avista reported operating earnings of $0.12 per share, a substantial drop from the $0.76 reported last year but ahead consensus.**
- **As has been the case for some time now, all the earnings came from the energy marketing and trading unit, which continues to scale down.**
- **We are changing our income rating to 8 to reflect continued cash flow challenges.**
- **Including earnings from Avista Energy in our estimates; 2001E revised to $0.50. Adding Energy to our 2002E offsets falling earnings at the utility, so our estimate stays at $0.50.**
- **Utility is to file a WA rate case on 12/1. AVA is under-earning its allowed 11.16% ROE and will have numerous additions to rate base. That said, we think regulators will be hard pressed to grant much near term rate relief.**
- **($0.69) reported loss reflects a $38M loss on write off of Avista Communications. But, EPS drag ($0.40 range) at other subs continues.**
- **At current levels, we think AVA has long term attraction as a high-risk utility turnaround story with break-up potential in the non-utility subsidiaries. But near-term upside seems clouded by continued earnings and cash flow pressure and the overhang of a major rate case.**

Merrill Lynch & Co.
Global Securities Research & Economics Group
Global Fundamental Equity Research Department

RC#20130654

A Long Way To Go

Since the summer of 2000, Avista has struggled to keep its utility from going the way of its much larger and financially challenged brethren in central and southern California. Regulators in Idaho and Washington have been more supportive than their brethren in California, but the magnitude of rate relief needed and the faltering economy of eastern Washington are diametrically opposed. So, regulatory support must be defined in terms of survival. The good news: a liquidity crisis seems unlikely. The bad news: Upside appears to be limited in the near-term.

While a pittance compared to the $12B deferral that severely damaged the California utilities, Avista's $270M in unrecovered energy purchase costs is a serious overhang that has already hurt the company's credit quality. The company has been working to complete the Coyote Springs Power plant that will alleviate the need to buy so much power, but financing the construction of that plant has become more difficult. Two weeks ago, AVA announced that it had agreed to sell half of the project to Mirant Corp. on undisclosed terms. This, along with steep cuts ($15M in 2001 and $40M next year) to the company's capital expenditure program, and ongoing trimming of O&M costs will help shore up near term cash flow.

But What About Earnings?

Ever since we can remember, AVA's utility operations have, absent unusual items, contributed between $0.90 and $1.00 per share. Rates haven't changed in years, and even though purchased power costs have risen, the excess above what's included in rates has been deferred pursuant to an accounting order that expires at the end of this year.

Utility. For next year, things are highly uncertain. In its quarterly conference call, management suggested that instead of its historical average, the utility is only expected to contribute $0.55 to $0.65 per share. The drop appears to stem mainly from higher interest costs. However, there is also some uncertainty as to the continued deferral of above-tariff power purchase costs given the accounting order's expiration at the end of this year.

Energy. Apart from the utility, Avista Energy is expected to earn between $0.35 and $0.40 per share. Because of the historical volatility of this unit and its disproportionate impact on income, cash flow, and the balance sheet, we have previously excluded its earnings from our estimates. AVA has scaled the operation back substantially, and continues to rein it in going into 2002. At this point, we believe it is once again appropriate to include Energy's contribution, and we have revised our estimates.

Other. During the third quarter, AVA decided to write off its investment in Avista Communications, which had been roughly a $0.25/year drag on earnings. The other subs, Labs and Advantage, remain, and are expected to lose $0.40 to $0.50 per share, essentially offsetting Energy.

Boiling it all down, the lower utility earnings are roughly offset by the removal of the drag from Communications and the contributions of a rationalized Avista Energy. However, that still only adds up to about $0.50 for next year, so we are leaving our 2002E unchanged.

Howdy, Partner

On 10/24, Avista struck a deal to sell half of its 280MW Coyote Springs II power plant under construction in Oregon to Atlanta-based Mirant Corporation. The two will share operation and output from the plant equally. While terms weren't disclosed, AVA has invested $140M of the planned $190M total project cost and doesn't expect to book a gain or loss on the deal. AVA expects that Mirant will take over funding the project that the parties will settle up with AVA at time of completion.

Q3 Review

Q301 Reported: ($0.69) vs. $0.72.
Operating $0.12 vs. $0.72.

Adjustments: $0.81/share write off of Avista Communications.

The utility earned $0.06 vs. a loss of ($0.02). Energy was $0.23, less than 1/3 of the $0.89 in Q300, but also on a much smaller and secure base. The parent and subsidiaries collectively put up a loss of ($0.17) vs. ($0.15) last year. Higher interest costs were partially offset by the elimination of Avista Communications.

Income Rating Changed

While Avista's $0.48 per share annual dividend is not a major cash drain, the drop in earnings and ongoing cash flow crunch once again put even this reduced payout at risk. We are changing our income rating from same/higher (7) to same/lower (8).

Strategy

Avista has further weakened on this latest news, especially in light of where most expectations had been for 2002. As noted above, we weren't looking for much earnings this year anyway, so our near term view remains unchanged; there's little hope for upside here in the 12 month time frame given earning/cash flow pressure and the overhang of a big rate case. Beyond that, there is likely upside potential, but it is surely in the context of a speculative utility turnaround play with some non-utility businesses that could still bring additional value.

(Continued)